Taking Your Business Global: Transacting in Foreign Currency

In today's global economy, many San Diego businesses consider sourcing and selling in foreign markets to grow. When expanding your business overseas, it's important to understand options for managing your company's finances in a foreign country.

Many companies believe they can eliminate foreign exchange (FX) risk by conducting international transactions in their own currency, versus their counterparties' local currencies. Yet, FX volatility risk between two currencies is always present.

For example, by transacting in your home currency, your company may pass FX risk to your suppliers, who may charge a premium for assuming the risk, or fail to manage the risk appropriately. Transacting in local currency instead of U.S. dollars, however, may reduce costs, and enable negotiation of more favorable payment terms. Even sourcing from a related entity such as a parent company should involve careful consideration of where the exchange rate risk lies, and which party is best suited to manage it.

Also consider that companies who sell internationally may prefer to accept customer payments in USD. However, accepting payment in foreign currency may open up new markets with customers who can only make payments in their local currency. And, selling internationally in USD means that your products and services become more expensive in a stronger dollar environment, potentially making you less competitive.

Once your currency transaction and payment strategies are in place, it's important to consider the appropriate type of foreign exchange transaction. FX transactions generally fall into two primary categories: forward and spot contracts. Importers and exporters often choose to hedge their foreign currency payments from exchange rate fluctuations by using forward contracts, which lock in an exchange rate for a future transaction. Others prefer spot contracts, in which you agree to sell a currency for immediate settlement at the current market exchange rate. Benefits include easy operation, 24-hour trade access and zero deposit requirements, according to Trade Global Financial.

Another approach to mitigating exchange rate risk is to open a foreign currency account – ideal when a customer is selling and purchasing a product in the same currency. This protects your company from currency volatility for amounts where the volumes of the receivables match your anticipated payable needs. It's only beneficial if volume and transaction activity outweighs the foreign currency account fees. And, it means tying up liquidity, as funds are held in a foreign currency until later need arises.

A financial advisor or bank partner in San Diego can help you and your company expand globally. With guidance and planning, you can decide how best to manage your out-of-country assets.

Rick Bregman
San Diego Market President, Bank of America
National Co-Head GCB Healthcare Banking, Healthcare & Institutions
Bank of America Merrill Lynch
www.bofaml.com

###